



CHAMBER OF COMMERCE AND INDUSTRY
WESTERN AUSTRALIA

8 April 2009

The Secretary
Senate Select Committee on Climate Policy
PO Box 6100
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CANBERRA ACT 2600

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Dear Secretary

INQUIRY INTO POLICIES RELATING TO CLIMATE CHANGE

The Chamber of Commerce and Industry of Western Australia (CCI) welcomes the opportunity to provide a submission to the Senate Select Committee on Climate Policy inquiry into the policies relating to climate change.

About CCI

CCI is the leading business association in Western Australia. It is the second largest organisation of its kind in Australia with a membership of approximately 5,000 organisations in all sectors including manufacturing, resources, agriculture, transport, communications, retailing, hospitality, building and construction, community services and finance.

Most members are private sector businesses but CCI also represents firms in the not-for-profit and government sectors. About 80 percent of members are small businesses, and members are located in all geographical regions of WA. Some 100 business associations are affiliated with CCI, expanding the organisation's representative coverage to more than 10,000 enterprises.

Support for an Emissions Trading Scheme

CCI supports the introduction of a market-based mechanism such as the Carbon Pollution Reduction Scheme (CPRS) as a least-cost means by which to reduce Australia's carbon-equivalent emissions. An Australian emissions trading scheme must offer broad sectoral coverage that equitably distributes the burden of greenhouse gas mitigation across the economy.

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Timing and Business Preparedness

CCI strongly believes that Government has not provided sufficient time for industry to comprehensively review the proposed scheme and assess all possible business impacts that may arise from its introduction.

CCI believes that a proposed start date of July 2010 is too soon, and that scheme commencement should be predicated on business readiness, rather than a pre-determined deadline.

In 2007 CCI commissioned CRA International to conduct an audit of Western Australian industry and determine the preparedness of firms for the introduction of an emissions trading scheme. The subsequent report found that preparedness for an emissions trading scheme within the small to medium enterprise sector was particularly low. Consequently CCI continues to call for appropriate education to be provided to industry prior to scheme introduction.

The CRA report and the current economic uncertainty underpin CCI's strong view that it is not in the best interests of the national economy to implement a CPRS that could increase risk and uncertainty and place additional cost and administrative burdens on business.

CCI understands that the current economic downturn is causing a natural reduction of carbon emissions as a result of declining industrial production. CCI considers that this provides an opportunity for scheme commencement to be delayed without compromising Australia's ability to meet future emissions reduction targets.

Reporting and Compliance

CCI is concerned that many businesses will not be prepared for the reporting and compliance measures required under the CPRS. We understand that significant work is required to ensure robust internal systems are in place across an organisation's operational, financial and environmental divisions to ensure effective monitoring and management of emissions output and carbon permit requirements.

CCI understands that determinations concerning how a business should account for carbon permits under the CPRS are yet to be finalised by the International Accounting Standards Board. Continuing uncertainty about carbon permit accounting could limit industry's ability to appropriately develop compliance methods prior to scheme introduction.

Emissions-Intensive, Trade Exposed Industries

CCI strongly believes that the Nation's emissions-intensive, trade-exposed (EITE) industries will be exposed if an emissions trading scheme is introduced in isolation from other competing nations. This concern was identified in the Government's CPRS White Paper, and is reflected in the exposure draft legislation. However, CCI notes that EITE industry support will be underpinned by regulations which have not been made available as part of the exposure draft legislation. This increases uncertainty for firms that may qualify for EITE assistance.

CCI contends that the proposed EITE assistance measures remain underdeveloped, especially in respect of the industry sectors that should receive assistance. There is continued uncertainty as to what will constitute an 'activity' for the purposes of the scheme and how this definition will be applied consistently.

Part 8, Division 2, clause 167(3) of the exposure draft legislation states that the Minister must take all reasonable steps to establish the emissions-intensive, trade-exposed assistance program prior to

1 July 2010. However, we believe this clause implies that the CPRS may commence without the EITE assistance program being finalised. CCI strongly recommends that the legislation should be modified to ensure the CPRS is not permitted to commence if the EITE assistance scheme is not in place.

CCI notes that Part 8, Division 2 of the draft legislation imposes all reporting and record-keeping requirements on those who receive free permits through the scheme. We believe this could result in compliance costs for EITE-assisted corporations being higher than other organisations operating within the CPRS. Furthermore, we contend that additional compliance costs will reduce the real net value of the free permits allocated.

Global Financial Crisis

CCI is concerned that the Government is progressing with the implementation of the CPRS at a time when businesses are focussed on more immediate financial concerns, noting the effect of the global financial crisis.

CCI believes that Government should not be imposing additional carbon-related costs on business at the same time that it is seeking to stimulate the economy.

Global Action

CCI believes that Government should await the outcomes of the United Nations Climate Change Conference in Copenhagen in December 2009 before committing to a design for an Australian emission trading scheme. CCI considers that by delaying the introduction of the CPRS, there will be an opportunity to incorporate the outcomes of this conference into the policy framework for Australia's emissions trading scheme.

CCI believes it would be in Australia's best interests to ensure the policy direction taken internationally aligns with our own emissions trading scheme. The risk of implementing a scheme that is inconsistent with other countries may be greater than the risk associated with delaying the introduction of an Australian emissions trading scheme to enable these compatibility tests.

Insufficient Financial Modelling

CCI is concerned that the Treasury modelling, *Australia's Low Pollution Future*, undertaken to assess the impact of the CPRS on the Australian economy does not provide sufficiently detailed information. The report does not assess potential impacts on a sectoral or industry basis, nor does it analyse impacts at a State level.

The Treasury modelling also makes particular assumptions about their being wide-scale global mitigation. CCI believes that modelling should also be undertaken that assumes this is not the case.

CCI notes that the modelling was completed without reference to the global financial crisis. Given the increasing impact this is having on Australia's economy, CCI recommends that additional modelling be undertaken that factors in its effects.

CCI believes that Western Australia will be strongly impacted by the CPRS given its large share of EITE industries. CCI is concerned that Treasury's report found that "Australia is likely to lose competitiveness where its production is more emission intensive than its competitors..." and Western Australia will "face the greatest impacts from emission pricing".

Renewable Energy Target

CCI believes the successful introduction of an emissions trading scheme will eliminate the need for complementary measures, such as a mandatory renewable energy target. CCI considers that the establishment of a market for carbon will create the necessary price signals to achieve least-cost mitigation.

Western Australia's economic success has been largely achieved through access to secure, reliable, safe and competitively-priced energy. The State's main industries, which include mining, petroleum, agriculture and tourism are energy intensive and trade exposed. The South-West Interconnected System (SWIS) which supplies power to the most densely populated region of the State is isolated, relatively small and not well equipped to handle excessive penetration of some forms of renewable energy.

CCI urges Government to consider Western Australia's unique electricity grid in the context of mandatory renewable energy targets. CCI understands that in the short to medium-term, wind generation will provide the best opportunity for renewable energy generation. However, the intermittent, non-schedulable nature of wind can undermine network stability and lead to increased system and network management costs for the SWIS which cannot rely on load balancing through the national grid network. CCI considers that integration of renewable energy into the SWIS will be more difficult than integration of renewable energy into the national grid.

CCI is concerned about the impact a renewable energy target could have on electricity-intensive, trade-exposed industries. These companies could be confronted with a significant renewable energy price premium on a proportion of their energy consumed. This would represent a cost not borne by international competitors in the global market. CCI believes that Government should exclude these companies from the operation of any RET scheme or provide appropriate compensation to those companies to offset the additional costs they will incur.

Conclusion

CCI supports the need for an Australian climate change mitigation and emissions abatement program, and endorses the use of a well-designed 'cap and trade' emissions trading scheme.

However, CCI is strongly concerned that Government is expediting the implementation of the CPRS well in advance of industry's level of readiness for it. This introduces new and significant risk to businesses that are currently focussed upon managing through uncertain economic times.

CCI's Senior Adviser, Industry Policy, Andrew Canion would be pleased to provide further detail on this submission. Mr Canion may be contacted on (08) 9365 7688 or email andrew.canion@cciwa.com.

Yours sincerely



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